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RUEHCV/AMEMBASSY CARACAS 0454
RUEHBO/AMEMBASSY BOGOTA 1508
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RUEHRG/AMCONSUL RECIFE 3414
RUEHRI/AMCONSUL RIO DE JANEIRO 7857
RHEHNSC/NSC WASHDC
RUCPDO/USDOC WASHDC 2727
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STATE ALSO FOR P, S/P, E, EB/EPC, EB/ENR
STATE PASS USTR FOR CRONIN
STATE PASS EXIMBANK
STATE PASS OPIC FOR DMORONESE, NRIVERA, CVERVENNE
NSC FOR FEARS
TREASURY FOR OASIA, DAS LEE AND JHOEK
USDOC FOR 4332/ITA/MAC/WH/OLAC
USDOC FOR 3134/ITA/USCS/OIO/WH/RD
DOE FOR GWARD
SOUTHCOM ALSO FOR POLAD
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E.O. 12958: N/A
TAGS: [ENRG](#) [PGOV](#) [EAGR](#) [EPET](#) [SENV](#) [BR](#)
SUBJECT: UNDER SECRETARY BURNS'S ENERGY ROUNDTABLE IN SAO PAULO,
FEBRUARY 6, 2007

SENSITIVE BUT UNCLASSIFIED - PLEASE PROTECT ACCORDINGLY

SUMMARY

1. (SBU) Summary: In his February 6 meeting in Sao Paulo with senior Brazilian energy experts, Under Secretary R. Nicholas Burns emphasized the tremendous potential of U.S.-Brazilian cooperation on ethanol, and solicited his interlocutors' views on developing this partnership. Discussion centered on the foreign policy and market-building potential of this cooperation. End Summary

2. (SBU) Under Secretary Burns was accompanied by WHA Assistant Secretary Tom Shannon, International Energy Coordinator Greg Manuel,

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S/P Member William McIlhenny, and P Special Assistant Heide Bronke. Following briefings and meetings in the Consulate, U/S Burns and his delegation, along with Ambassador Sobel, FAS Attach Alan Hrapsky, ATO Director Morgan Perkins, and econoff Valerie Wheat (notetaker), met with Brazilian experts in the energy field to discuss avenues of mutual cooperation. The discussion focused mostly on Brazil's experiences with ethanol. Participants included Luis Carvalho, agronomist and Chairman of the National Chamber for Ethanol and Sugar; Plinio Nastari, Agricultural Economist and consultant; and William Lee Burnquist, agronomist at the Cane Technology Center.

BILATERAL BIOFUELS COOPERATION

13. (SBU) U/S Burns opened the discussion by referring to the potential for tremendous growth opportunities for both countries in the area of ethanol and asking the speakers to explore the possibilities for strengthening the U.S.-Brazilian relationship based on cooperation in the ethanol sector. How, he asked, could the world's two largest ethanol-producing countries, working together, impact on the global ethanol market? Is there a possibility for cooperation in science and technology and joint research to stimulate alternative fuel production?

14. (SBU) Nastari described how Brazil is currently producing two types of ethanol: a blend of 20-25 percent, and pure fuel for dedicated fleets. Brazil produces ethanol cars and flex-fuel engine automobiles. Currently 82 percent of new automobile sales are flex-fuel cars. 40.4 percent of fuel consumed in Brazil is ethanol.

15. (SBU) Brazil, using sugarcane technology, is currently converting molasses to ethanol, and this activity is expanding rapidly. The basis for good ethanol production is agriculture. Cost-efficient sugar cane production yields cheap sugar cane. Sixty percent of the cost of producing ethanol is the raw material. Brazil produces high-yield sugar cane inexpensively and can share its expertise and technology with the rest of Latin America and extend outward after that. Brazil has already begun to work with other countries, e.g., Paraguay. Industry contacts noted that with widespread sugar production throughout Latin America, development of a regional ethanol industry would provide a broadly-based energy supply. However, in order for this sector to develop in countries not currently producing ethanol even though they have large quantities of molasses, a regulatory framework is needed.

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FOREIGN POLICY POTENTIAL

16. (SBU) Burnquist stressed ethanol's enormous potential for foreign policy. Development of an alternative fuel source could help counter-balance Venezuela's influence, for example, in the Caribbean. Post-Castro Cuba could become an important producer. Brazil could build on President Lula's "south-south" initiative by expanding to Africa, Asia, and other parts of the developing world. Ethanol technology for Latin America could fulfill the Summit of the Americas goals of 1) phasing out lead, and 2) phasing out use of MTBE.

MAKING ETHANOL A COMMODITY

17. (SBU) According to Carvalho, seventy-five percent of all ethanol produced worldwide comes from the United States or Brazil. The two countries are natural partners, able to push sustainability with biofuels. They can produce clean energy, increase their incomes, and establish stronger commercial ties. Ethanol should be considered a commodity, with the U.S. and Brazil working together, able to establish reference prices. This could reduce ethanol costs, aid with mechanization in collection of raw materials (tractor companies such as John Deere), and assist in increasing trade in ethanol along the entire production chain. Japan is very interested in maintaining a supply adequate to its needs, increasing mandatory ethanol use from 3 to 10 percent. There are great investment opportunities in this area, with profits virtually guaranteed.

18. (SBU) Carvalho further elaborated that technologically, Brazil is very advanced. Today it can produce more sugarcane per acre due to the development of high-yield crops. Although not yet economically feasible, cellulosic enzyme processing makes it possible to produce 50 percent more ethanol with the same input as

currently used, if it can be transformed to sugar base.

CREATING A MARKET

¶9. (SBU) With the United States targeting greater use of ethanol (35 billion gallons per year), the prospects for the market are good, Burnquist said, the more so because a growing problem in the U.S. is the amount of water available for the US-corn based ethanol production. Brazil is not a direct competitor, Burnquist continued, because its production is sugar-based. Growing domestic demand for ethanol will make it a challenge for Brazilian producers to supply enough ethanol for its own needs; they will not immediately need to seek markets outside Brazil. However, Brazil has good R&D, technology, and expertise, and has developed cane varieties. It can share this knowledge to assist other nations to become economically viable using sugar cane technology, as it has already done in Paraguay, Ecuador, Peru and Colombia.

¶10. (SBU) U/S Burns asked how the Governments of Brazil and the United States could come together to work more closely on ethanol.

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The sugar cane industry in Brazil is traditionally private, replied Burnquist, with no formal role for the GoB, which is still formulating its policy. This would be a propitious moment for the two governments to work together, using ethanol as a trade incentive and reaping the foreign policy benefits. However, there needs to be careful joint planning to develop a proper regulatory framework.

COMMENT

¶11. (SBU) Comment: The roundtable provided a useful overview of the issues and challenges involved in developing alternative energy sources. During his subsequent encounters with political leaders and media, and in his well-attended and well-received speech, U/S Burns repeatedly called on the United States and Brazil to work together to develop the regulatory infrastructure and technical capacity to create an international market for ethanol. End Comment.

¶12. (U) This cable was coordinated with Embassy Brasilia and cleared by U/S Burns's delegation and Ambassador Sobel.

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